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February 18, 2000

VIA HAND DELIVERY

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: PETITION TO CONVENE A CONTESTED CASE PROCEEDING
TO ESTABLISH PERMANENT PRICES FOR INTERCONNECTION
AND UNBUNDLED NETWORK ELEMENTS

TRA DOCKET NO. 97-001262

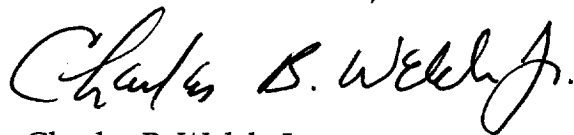
Dear Mr. Waddell:

Enclosed for filing, please find the original plus thirteen (13) copies of the Reply Comments of the Tennessee Cable Telecommunications Association. Copies are being served on parties of record.

If you have any questions or concerns with regard to this filing, please do not hesitate to contact me.

Very truly yours,

FARRIS, MATHEWS, BRANAN,
BOBANGO & HELLEN, P.L.C.



Charles B. Welch, Jr.

CBWjr:cg
cc: Carolyn M. Marek
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EXECUTIVE SECRETARY

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**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

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Tennessee Regulatory Authority

IN RE:

**PETITION TO CONVENE A CONTESTED
CASE PROCEEDING TO ESTABLISH
PERMANENT PRICES FOR INTERCONNECTION
AND UNBUNDLED NETWORK ELEMENTS**

DOCKET: 97-001262

**REPLY COMMENTS OF THE
TENNESSEE CABLE TELECOMMUNICATIONS ASSOCIATION**

The Tennessee Cable Telecommunications Association ("TCTA"), through counsel, respectfully submits its reply comments regarding the January 20, 2000 comments filed by BellSouth Telecommunications, Inc. ("BellSouth" or "the Company").

In its January 20, 2000 comments, BellSouth asserted that the Tennessee Regulatory Authority's ("TRA") proposed unbundled network elements ("UNEs") rates fail to meet the "just and reasonable" standard as required by the Telecommunications Act of 1996 ("the 1996 Act"). BellSouth argued that "[b]y every objective measure, establishing rates based upon BellSouth's cost studies as adjusted by this Authority would violate this statutory standard." (BellSouth January 20, 2000 comments, page 6.) This broad contention is without merit because it is based upon a strained interpretation of a narrow set of "measures." A thorough analysis of the "measures" reveals the shortcomings in Bell South's assertion.

The first "measure of objectivity" the Company introduces is the relationship between the initial cost estimates generated by the TELRIC Calculator submitted by BellSouth and the Hatfield Associates, Inc. model ("the HAI model") sponsored jointly by AT&T and MCI. BellSouth asserts that some meaningful relationship existed between the cost estimates developed by the respective models in the early stages of the proceeding. The Company observes that the TELRIC Calculator yielded a higher cost per unbundled 2-wire analog loop than the HAI model prior to the TRA-ordered revisions. BellSouth, however, fails to explain

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why the relationship between the TELRIC Calculator's and the HAI model's unadjusted cost results should be preserved.

Most parties acknowledge that the carriers' initial cost studies tended to make certain assumptions that generated results favoring one carrier over the others, i.e. rates for unbundled network elements. BellSouth is aware that regulatory authorities often modify either the TELRIC Calculator's or the HAI model's cost estimate. In fact, many regulatory proceeding have resulted in extensive revisions. Adjustments are commonly made because regulatory bodies objectively review the models' information. Such review ensures a more accurate measure of appropriate UNE rates for an individual carrier in a particular state. Thus, the relationship between the unadjusted cost estimates developed by the TELRIC Calculator and the HAI model should not be meaningful.

The second "objective measure" presented by BellSouth is that the TRA-ordered revisions reverse the relationship between the TELRIC Calculator's and the HAI model's unadjusted cost estimates. BellSouth alleges that "[t]his is a somewhat startling development, given that the Hatfield model has been held out by AT&T as the only proxy cost model to comply with the FCC's TELRIC pricing rules and the only model to employ least cost, forwarding looking technologies." (BellSouth January 20, 2000 comments, page 2.) Notwithstanding the lack of a meaningful relationship between each cost-proxy model's set of unadjusted cost results, the more startling development is BellSouth's position that the HAI model's cost estimates are an adequate measurement of reasonableness. In the past, BellSouth has vigorously opposed both the model platform as well as the input values in similar UNE and universal service support proceedings. The timing of the Company's decision to embrace the adjusted results of the HAI model as a standard of reasonableness in light of the TRA-ordered revisions to the TELRIC Calculator raises questions about the motive behind BellSouth's position.

BellSouth's third "objective measure" is the relationship between the TRA-adjusted cost estimates and the Federal Communications Commission's ("FCC") proxy costs for 2-wire analog loops. "[T]he FCC has established proxies for the forward-looking cost of a two-wire loop," BellSouth notes, "which a state commission is authorized to use to establish rates if 'the cost information available to it does not support the adoption of a rate or rates that are consistent with

[the FCC's pricing rules]'.” (BellSouth January 20, 2000 comments, page 3.) Apparently, the Company believes that consistency with “the FCC's pricing rules” hinges on whether the state regulatory authority's prescribed rates meet the FCC proxy costs established for that jurisdiction.

Examination of the FCC proxy cost's development process suggests, however, that it is not expected that a close relationship exist between the FCC proxy cost and a state regulatory authority's prescribed rate. The FCC developed its proxy costs in 1996 using early releases of the Benchmark Cost Model (“the BCM”) and the Hatfield Model (Version 2.2) and information from only a handful of state proceedings:

“[w]e are adopting a proxy ceiling based on two cost models and rates for unbundled loops allowed by six states that had available to them the results of forward-looking economic cost studies at the time they considered either interim or permanent rates for the unbundled loop element Each of these states has used a standard that appears to be reasonably close to the forward-looking economic cost methodology that we require to be used, although possibly not consistent in every detail with our TELRIC methodology”

(CC Docket No. 96-98, First Report and Order, paragraph 792, Released August 8, 1996). The FCC use of different models to develop its proxy costs vis-à-vis those considered by the TRA in its unbundled network element proceeding may alone explain the spread between the rates. In addition, the TRA should observe that when the FCC established loop proxy costs, it relied upon early versions of the models which lacked design enhancements, e.g. customer location, network design, etc. Moreover, the FCC's more recent efforts to refine UNE rates have benefited from an updated body of information gathered from the experience of state regulators and other interested parties.

More importantly, however, the TRA has fulfilled whatever obligations may exist under the 1996 Act and the FCC's rules with respect to establishing UNE rates. In the First Report and Order, the FCC designated its loop proxy cost as an interim rate that the states could adopt until they replaced it with “their own forward-looking economic cost study or the results produced by a generic economic cost model that the Commission has approved.” (paragraph 791.) Clearly,

the TRA has conducted a rigorous examination while conducting its own forward-looking economic cost study. The end result is the Authority has prescribed a reasonable set of UNE rates based upon the record.

Although BellSouth characterizes the lower TRA-adjusted rate for unbundled loops relative to the FCC proxy costs as unreasonable, the adjusted rate is actually consistent with the FCC proxy methodology. As the FCC explained:

“State commissions may use this proxy to derive a maximum (or ceiling) loop rate for each incumbent LEC operating within their state, and may establish actual unbundled loop rates at any level less than or equal to this maximum rate in specific arbitrations or other proceedings”

(CC Docket No. 96-98, First Report and Order, paragraph 791, Released August 8, 1996). Considering the background of the FCC proxy costs development, it would be a matter of concern if the TRA-ordered rates did not depart from the FCC proxy costs.

The fourth “objective measure” raised by BellSouth is the relative comparison of the TRA-adjusted BCPM rates with the FCC proxy costs and the TRA-revised HAI model rates. The Company alleges that “no state commission in BellSouth’s region (with the exception of Mississippi) has established a rate for a two-wire loop that is less than the FCC proxy loop cost” and “the economic cost calculated by the Hatfield Model.” (BellSouth January 20, 2000 comments, pages 3 and 4.) The TRA should dismiss BellSouth’s argument to set UNE rates based upon the circumstances that have prevailed in other jurisdictions. The Authority is not bound to prescribe rates for carriers under its jurisdiction that fall within a range of acceptance as espoused by the utility it regulates.

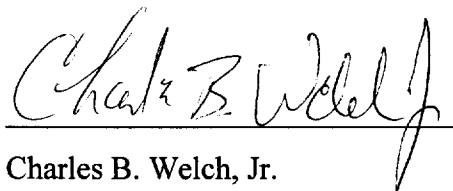
Finally, BellSouth’s fifth “objective measure” is the relationship between the prescribed rates for unbundled loops and ports among the other regulatory bodies in BellSouth’s region. The Company considers this relationship to be “the most alarming aspect of the Authority’s adjustments to BellSouth’s cost studies,” contending “that, if adopted, *the rate for a two-wire loop in Tennessee (\$14.92) would be the lowest loop in BellSouth’s region.* The same would be true for the line port, . . .” (BellSouth January 20, 2000 comments, page 5, BellSouth’s emphasis.) As the cost proxy models have demonstrated, operating conditions can vary

substantially among the service territories within a state and among a nine-state region. The TRA should not be concerned if its adjusted cost results do not fall into a preconceived order.

The alternative to challenging the TRA-adjusted rates is to revisit the cost-proxy model results supporting the UNE rates in the other BellSouth states. Such a study could determine whether further adjustments based upon the TRA's experience are justified. It is inevitable, however, that one state will be charged with setting the lowest UNE rates. State regulators could obviously avoid such a "stigma" by routinely ordering adjustments that raise the bar for competition. Aside from needless regulatory expense and uncertainty, this exercise poses an endless and futile pursuit.

In conclusion, BellSouth purports that by every objective measure, establishing rates based upon its cost studies, as adjusted by the TRA, will violate the Act's just and reasonable rate standard. As has been discussed in these comments, BellSouth's assertions are founded upon a series of suspect relationships. When scrutinized, it is apparent that a lack of integrity exists which undermines some of these relationships. Furthermore, the "objectivity" of the other measures, if it ever existed, has been eroded by both the accumulation of state and federal findings from numerous UNE arbitrations and proceedings and the enhancements to the subject cost proxy models. BellSouth's positions, advanced through its "measures of objectivity," fail to establish that the TRA-adjusted rates for unbundled network elements violate any just and reasonable standard and, therefore, should be rejected.

Respectfully submitted,

A handwritten signature in cursive script, reading "Charles B. Welch, Jr.", written over a horizontal line.

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